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C O N F I D E N T I A L SECTION 01 OF 03 MOSCOW 003084

SIPDIS

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SUBJECT: THE CUSTOMS UNION AND A UNIFIED WTO ACCESSION
PROCESS - CHALLENGES AND OPPORTUNITIES? (PART 3 OF 3)

REF: A. MOSCOW 3083
 [1](#)B. MOSCOW 3082
 [1](#)C. MOSCOW 3053
 [1](#)D. MOSCOW 3050
 [1](#)E. ASTANA 2131
 [1](#)F. GENEVA 1001
 [1](#)G. MOSCOW 2381 AND PREVIOUS

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Classified By: Ambassador John Beyrle, Reasons 1.4 b&d.

[1](#)1. (U) Summary: This cable is the third in a three-part series presenting major features of the Russia, Belarus, Kazakhstan Customs Union (RBKCU), which was finalized on November 27 with the signing of most binding agreements. The first cable covered the major structure and decision-making process of the RBKCU (ref A). The second cable discussed the principal points regarding tariffs and non-tariff regulations (ref B). This cable addresses the RBKCU and its effect on the WTO accession of member countries. Post believes that the RBKCU likely will create stumbling blocks for the WTO accession process, but may present may present opportunities to advance U.S. trade objectives in the three countries. End Summary.

So What Comes Next for WTO?

[1](#)2. (U) On December 7, Russia's Lead Trade Negotiator Maxim Medvedkov briefed foreign embassy representatives on the newly approved RBKCU and next steps for WTO accession. Medvedkov reiterated the position heard for the last few months, that all three RBKCU countries want to continue their WTO accession as individual countries. That said, the three want to coordinate the contents of the accession agreements and accede to the WTO simultaneously. The view from Moscow indicates that in negotiations with the WTO (as with much else in the RBKCU), Russia continues to take the lead in any planning on negotiations.

[1](#)3. (U) Medvedkov confirmed that the current plan for the RBKCU members is to present to the WTO Secretariat a document explaining the RBKCU and how its members see it affecting their respective accessions. This was supposed to happen before the end of the year (reportedly the week of December 14, but we have received no confirmation it was submitted.) According to Michael Cherekaev, Head of the WTO Unit at the Ministry of Economic Development (MED), Russia wants the WTO

Working Party members to have a chance to review the material and be ready to set up negotiating schedules early in January 2010. Cherekaev assured econoff that the Russian WTO team is ready to re-start negotiations as soon as the holidays are over. The MED negotiations office has handed over all RBKCU negotiation responsibilities to a newly formed unit so that the Russian WTO team will no longer be "distracted." Cherekaev could not comment on the preparedness of the Belarussian and Kazakh negotiating teams.

Let's Go Back to Where We Left Off

14. (U) According to Medvedkov none of the existing RBKCU agreements contradicts any of Russia's WTO Working Party Agreements signed so far. As most of the RBKCU's standards, tariffs and regulations are based on Russia's, which are close to meeting the terms for WTO accession, Medvedkov believes there should be few problems. If there are any issues, the RBKCU can adjust its regulations "as needed upon accession." This possibility of revision of the RBKCU agreements is "why the three RBKCU members want to negotiate similar accession agreements" and have simultaneous accession. But, according to Medvedkov, this should not really be an issue, as RBKCU is "generally in compliance."

15. (U) According to Medvedkov, the RBKCU harmonized tariff table contains over 11,000 lines, 80% of them ad-valorem tariffs. He insisted that the harmonization process has only resulted in a small number of Russia's tariffs increasing, most in the area of meat and food products. All other tariffs will be lower as of January 1, 2010, and, according to Medvedkov, the table represents a 1% decrease in Russia's real effective tariff rate in comparison to 2009. (See ref B for a more detailed discussion.) For this reason Russia's

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trade negotiators believe that it will be easy for Russia's accession process to pick-up where it left off in June 2009, and few, if any, Market Access Agreements will need to be re-opened.

16. (C) This was a position echoed by Russia's leading private sector representatives during a December 2 meeting with U/S for Economic, Energy, Business and Agricultural Affairs Robert Hormats. Leading Russian businessmen told Hormats that the RBKCU will not be a stumbling block for WTO accession because the other countries will just conform to Russia's standards, and therefore, automatically, be in the same stage of accession as Russia. Russia will then quickly solve the "four old problems from last June" and all three RBKCU countries will be able to enter together. (Refs C and D)

17. (C) The only contradictory voice post has heard was Senior Presidential Advisor Dvorkovich, who told U/S Hormats, "Well, maybe when the time comes for Russia to enter, if the other countries aren't ready we'll just go in without them." (Ref C)

For Belarus and Kazakhstan) Different Stories

18. (SBU) The tri-country negotiating team will be formally requesting to the WTO a re-start of Belarus' accession process. According to Medvedkov, Russian trade specialists are currently working with the Belarussian team to identify legislative changes Belarus will have to make in order to be "WTO ready," and will propose Russian legislation as models. As Belarus' tariff schedule "was always close to Russia's, and therefore has not changed much with the RBKCU table," Medvedkov believes the RBKCU will actually help significantly Belarus' accession. Belarus should have easy market access negotiations, as long as members are willing to complete agreements close to Russia's existing agreements.

19. (SBU) According to the National Trade Estimate for Kazakhstan (Ref E), Kazakhstan has completed market access

agreements with 21 of 40 members of its Working Party, including Canada, Malaysia, Brazil, and Israel. It is still negotiating its agreements with the U.S., and the EU, among others (Ref E). According to Medvedkov, the RBKCU WTO negotiators hope that Working Party members will accept wholesale the Kazakh tariff table which resulted from the RBKCU negotiations. He stated that "it is a wash, as 3,000 lines went up and 3,000 lines went down." If the Working Party does not accept these changes and requires new market access negotiations, Medvedkov admitted that the Kazakh accession process would be set back quite far. As noted in Ref E, Kazakhstan's real effective tariff rate will go up, already 13% in 2009, as a result of the RBKCU harmonized tariff table. (See Ref B for more details on the Kazakh tariff changes.)

EU Mission Thoughts on the RBKCU and WTO

110. (C) During a November 30 meeting with the Ambassador, newly arrived EU Head of Delegation Fernando Valenzuela stated that the further deferral of Russia's entry into the WTO "would delay the EU Partnership and Cooperation Agreement (PCA)," but in his view there was not much left to negotiate on WTO. This was a view echoed by Timo Hammaren, the EU Mission's Senior Trade Officer during a December 18 meeting. Hammaren pressed econoffs for details on what the U.S. felt was still missing for Russia's accession, and asked how many of these were "technical issues or political ones?" He asked if there was "a U.S. determination for Russia to join the WTO?" He added that the PCA negotiations were being held up by the slowed down WTO accession. This did not mean, however, that the EU is pleased with the RBKCU. Hammaren noted that by their calculations the RBKCU tariff table contains over 850 million Euros in new tariffs in comparison to 2009, which the EU considers "a serious set back" for trade liberalization. Valenzuela stated that Russian WTO membership is important to counter such increases.

Comment

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110. (C) Despite the claims of many of our Russian interlocutors that the Customs Union should not really affect the WTO accession processes of any RBKCU members, we believe that just the changes to the tariff tables are sufficiently large enough to present complications for Russia and Kazakhstan. These will probably require the renegotiation of completed bilateral agreements with members of the respective Working Parties, as well as re-starting on-going negotiations. And this is before the RBKCU's harmonized position on other non-tariff regulations is clear.

111. (C) As stated in refs A & B, the Customs Union still has no harmonized position on SPS or IPR and other major WTO trade issues. The form these regulations take in the next few months, will then allow everyone to make a more realistic assessment of a time frame for eventual accession. Complicating the matter further is the insistence, at least from the Russian position, that "all of Russia's WTO commitments will only be implemented from the date of accession."

112. (C) Maxim Medvedkov has also noted that the RBKCU is an evolving project that will continue to change. This could provide WTO members an opportunity to try to influence the content of RBKCU harmonized regulations on SPS, IPR, investment policies, valuation, and many others. In fact, the RBKCU secretariat has requested technical assistance from the EU on issues such as standards and customs procedures. This moment could actually be an opportunity to help all three countries, simultaneously, to take on international regulations, laws, and standards that could facilitate WTO accession.

Rubin